THE WASHINGTON POST
22 August 1975

Directors of Star Reject Allbritton Offer

By Stephen Klaidman
Washington Post Staff Writer

Directors representing the three families that control Washington Star Communications, Inc., yesterday rejected an offer by Joe L. Allbritton to buy their stock, but they explicitly left the door open for further negotiations.

The nine directors who control over 52 per cent of the stock in Star Communications, parent company of the Washington Star newspaper and WMAL-TV and radio, also advised other stockholders to decline Allbritton's offer.

A letter to stockholders signed by Godfrey Kauffmann, president of Star Communications, did not take issue with the $23.5 million price proposed in the offer.

The directors are disturbed, according to the letter, by four conditions of the offer that would allow Allbritton to refrain from purchasing tendered shares should the conditions not be met.

Kauffmann believes that there is room to resolve the differences between the three families and Allbritton. Robert Nelson, Allbritton's close business associate, said that for the moment he had no comment on the Kauffmann letter. Allbritton was in California and it was not known when he would return to Washington. The tender offer expires Wednesday, but it can be extended by Allbritton.

The four conditions are:

- That the Federal Communications Commission give Allbritton five years to dispose of any properties he must give up to meet the agency's rules curbing multiple ownership of media in a single market area.
- That the FCC guarantee Allbritton the right to defer federal income tax payments on the proceeds of any such sale.
- That any appeal by public interest groups or other parties of the FCC's ruling be disposed of.
- That the various entities of Washington Star Communications, including the newspaper, suffer no "material adverse change" in their business or operations between now and Jan. 30, 1976, the last day on which Allbritton can buy the tendered stock under the current offer.

Kauffmann's letter says that in the opinion of Star Communications' legal counsel it is unlikely that all the conditions can be met, which means that Allbritton would not be obliged to buy the shares offered.

"In essence," the letter said, "the tender offer could perpetuate until Jan. 30, 1976, the uncertainties that presently exist. This is not in the best

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interests of (the) newspaper or (Star) Communications shareholders."

In his attempt to gain control of Star Communications Allbritton has offered to buy all shares in the company that are not already owned by his Perpetual Corp. of Delaware.

Perpetual now owns 1,982 shares, for which it paid $2,300 a share, and Allbritton is willing to acquire the remaining 17,846 shares at $1,600 a share, or a total of $28.5 million.

Under the offer, Allbritton must buy all shares tendered if at least 13,881, or 80 per cent of the outstanding shares, are tendered. If fewer than 13,881 shares are offered for sale, Allbritton may buy none or as many as he chooses. In each case, of course, all conditions of the tender offer must be met.

The nine directors who have declined to tender their shares under the current offer control a total of 10,448 shares. It is therefore impossible at the moment for Allbritton to acquire 80 per cent or even 50 per cent of Star Communications stock. Aside from Allbritton and John Clifford Folger, Allbritton's designated board member, only Willmott Lewis Jr. failed to concur in the letter. Lewis could not be reached for comment.

The primary reason Allbritton's seeking at least 80 per cent is that when one corporation owns at least 80 per cent of another the two are permitted to file consolidated income tax returns, which under certain conditions is advantageous.

Kauffmann's letter spells out why the nine directors regard the specified conditions as troublesome.

"It is uncertain whether the FCC will allow Perpetual five years in which to dispose of the requisite assets," the letters says, "and . . . it is also uncertain whether the FCC order will contain the foregoing tax certification (permission to defer federal income taxes on sale of assets)."

The letter goes on to say that citizens' appeals are likely to be filed and they are unlikely to be resolved by Jan. 30, 1976. Even if the other conditions are met, the letter continues, "it appears that the no-appeal condition could not be satisfied by Jan. 30, 1976."

With respect to the question of "material adverse change" in the operation of the newspaper, Kauffmann pointed out that Allbritton is now running the newspaper which is incurring substantial operating losses and therefore "it may well be impossible to satisfy this condition."

The letter goes on to say that "up to the moment of the release of the tender offer, the board of directors was actively negotiating an alternative transaction with Mr. Allbritton which would have avoided the FCC problems inherent in the tender offer and would have given Perpetual control of (the) newspaper, and we believe that these negotiations were proceeding satisfactorily."

Nelson said yesterday, however, that the tender offer was the only business "currently on the table."

Kauffmann goes on to say that, "We emphasize our continued willingness to pursue the alternative transaction then under consideration, a revised tender offer responsive to the problems outlined herein, or any other proposal which is in the interests of (Star) Communications, its subsidiaries and its stockholders."

Allbritton has sought to gain control of Star Communications because he has held in the past that the highly profitable broadcast properties were necessary to underpin the financially weak Star newspaper. Therefore he sought a waiver to a FCC regulation forbidding a new owner to retain control of more than one communications medium in a single area.

The FCC has called for hearings on the waiver which could take up to a year. In the meanwhile the newspaper is losing as much as a million dollars a month.